The Great Atlantic & Pacific Tea Company, Inc.

Annual Report for the Fiscal Year Ended February 26, 1972

The Great Atlantic & Pacific Tea Company, Inc. Annual Report for the Fiscal Year Ended February 26, 1972

Executive Offices

420 Lexington Avenue
New York, N. Y. 10017

Transfer Agent

Morgan Guaranty Trust Company
of New York
New York, N. Y.

Registrar

First National City Bank
New York, N. Y.
Common stock of the Company
is traded on the
New York Stock Exchange
under the symbol "GAP"

Notice of Annual Meeting

The Annual Meeting of Stockholders will be held on Tuesday, June 20, 1972 at 10 a.m. (E.D.T.) in The Colonnade, 120 Huntington Avenue, Boston, Massachusetts.

To Our Stockholders: The fiscal year ended February 26, 1972 was disappointing in many aspects. Sales were $5.509 billion as compared to $5.664 billion in fiscal 1970, and earnings were $14,619,000, or 59¢ per share, compared with $50,129,200, or $2.02 in 1970. In January 1972 the quarterly dividend was reduced from 32½¢ to 20¢ per share.

These results were influenced by many factors. Wages continued their upward spiral even though wage controls were instituted in August. The prices we charge our customers for most products were frozen from August15 through November 13, 1971 when we and other retailers came under gross margin control. This permits us to pass along advances in product costs but does not provide any relief from operating cost increases.

Operations On a more positive note, much was done to improve future operations through our aggressive program of new store development and the closing of obsolete units. One hundred and four new stores, averaging 21,800 square feet in size, were opened while 267 smaller, outmoded outlets were closed. At year end, another 134 new stores of even larger size were in various stages of development. Of existing stores, 268 were remodeled and all others were reviewed for storekeeping.

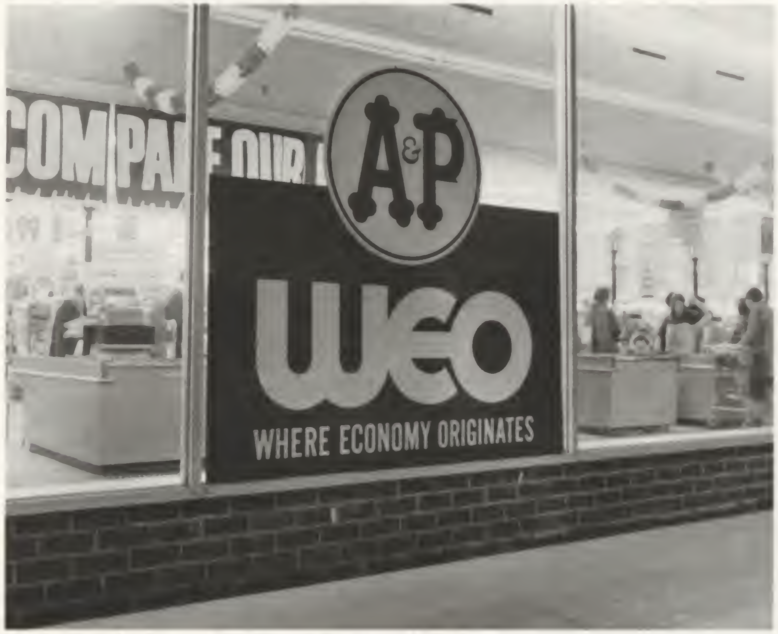
In distribution, progress also was made as your company successfully introduced an automatic computer-controlled order picking system at the Toronto Grocery Distribution Center. Representing a "first" in the industry, the system achieves a new level of efficiency and accuracy in the task of filling store orders. Approximately 3,400 flow lanes in a machine about the size of a football field automatically discharge the ordered items by computer control onto take-away conveyors which carry the merchandise directly into the designated store-delivery truck. Our new distribution

Comparative Highlights

(Dollars in thousands, except per share figures)

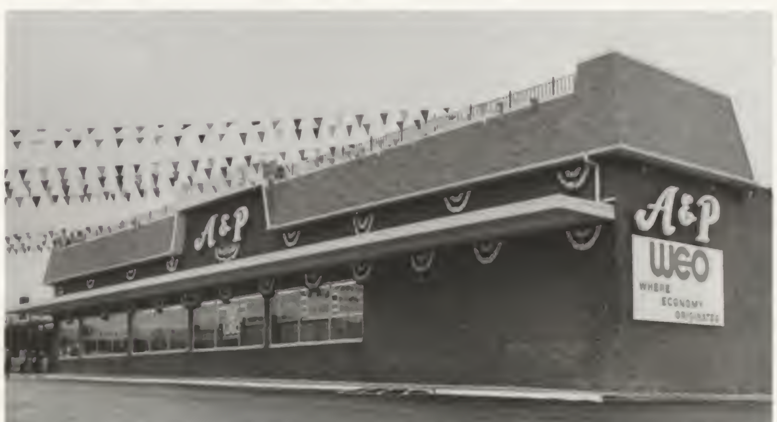
For the 52 weeks ended in February	1972	1971
Sales	$5,508,508	$5,664,025
Net income	14,619	50,129
Per share*	.59	2.02
Percent of sales	.27%	.89%
Cash dividends	29,229	32,338
Per share	1.175	1.30

*Based on the weighted average number of common shares outstanding each year.

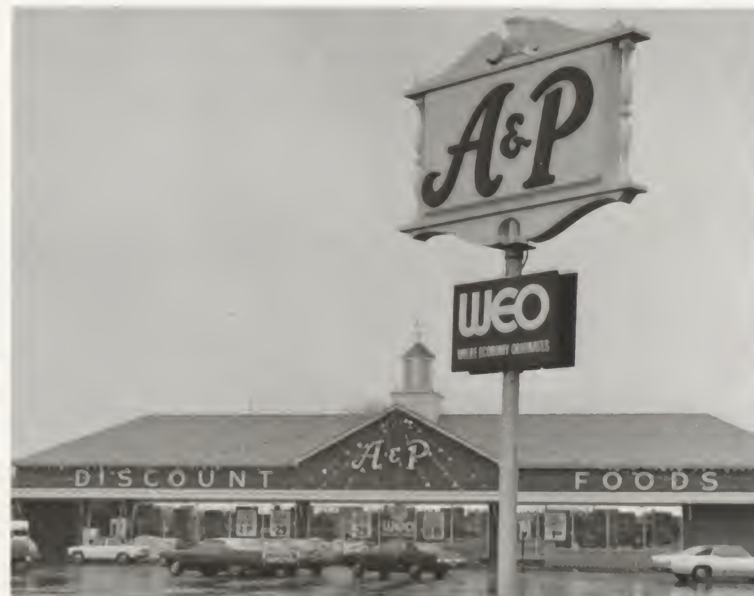


A&P W. E. O. stores are readily identifiable.

The original Warehouse Economy Outlet store at Pennsauken, New Jersey.



New A&P W. E. O. store with modified colonial architecture.



An existing early American A&P store converted to an A&P W. E. O.

center in Edison Township, New Jersey, now partly in service, also will utilize this automated handling system. When completed, this will do much to improve our distribution of merchandise in the metropolitan New York area.

New Merchandising Thrust In recent years, we have operated several hundred stores on a discount basis as either A&P A-Marts or A&P Discount Food Stores. Some of these were new stores opened as discount supermarkets while others were conventional, existing stores converted to discount merchandising.

During the past year, we went a step beyond discounting to experiment with "warehouse stores." The first of these was opened as a "Warehouse Economy Outlet" (WEO for short) at Pennsauken, New Jersey in May 1971.

This site was selected for a number of reasons. An existing conventional A&P supermarket was to be closed because it was outdated and no longer successful on the basis of recognized operating criteria.

With a minimum investment, the store was converted to a warehouse supermarket. The concept included minimum operating overhead, increased efficiency, concentration on the fastest selling items and extremely low prices for the consumer.

Initial sales results and consumer response were very rewarding. Many customers traveled 10 miles or more to shop the store.

To further test this merchandising approach, a number of other Warehouse Economy Outlet stores were opened during the following months. These were located over widespread areas. The majority of these stores also have enjoyed excellent sales results and favorable consumer response.

This careful experimentation led to a new merchandising thrust for the company. Utilizing some of the proven merchandising approaches from these warehouse stores in conventional A&P stores, resulted in the creation of the A&P WEO store. WEO now stands for "Where Economy Originates." The WEO store is a hybrid, combining the best operating principles of each of the former stores with lower prices for the consumer.

The first A&P WEO stores were opened in January of this year. Sales results have been most encouraging. Thus far, more than 1,500 stores have been converted to A&P WEO operations. During the balance of this year our current plans call for opening a number of additional A&P WEO stores. Some of these will be entirely new facilities while others will be conversions of existing stores. We believe the end result will be substantially greater sales, the winning of many new customers and improved profitability.

Customer Courtesy Program A company-wide courtesy program re-emphasizing this essential facet of our business was introduced early this year. Its implementation has resulted in an increased number of favorable customer comments and letters. In some areas, mystery shoppers were employed to single out store employees in the act of being especially courteous and helpful to our customers. These employees received special recognition and the opportunity to win one of a number of selected prizes for their extra efforts.

Greater Consumer Interest in Value Possibly as a by-product of consumerism, shoppers have developed a greater appreciation of value that offers us special opportunities to merchandise our extensive line of top quality company products. This change in customer buying habits has been highlighted frequently in recent months by the communications media. TIME magazine pointed out that "the growing importance of private label reflects marked changes in consumer attitudes. Brand loyalty is waning particularly among

young people. Consumers have become more knowledgeable and are willing to trust their own buying judgment. Indeed, there is considerable irony in the increasing prominence of private label products. Some of them including A&P's Eight O'Clock Coffee have become so well known that they now eclipse many vigorously promoted national brands."

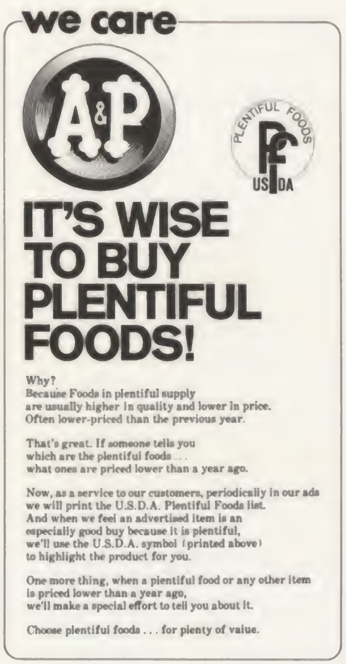
We are capitalizing on this trend by energetically promoting our own company products which afford our customers substantial savings with absolutely no compromise in quality. A&P customers know that a low price does not mean low quality. Every item which has the A&P name is as good as . . . or better than . . . comparable national brands. This is rigid policy from which we never deviate.

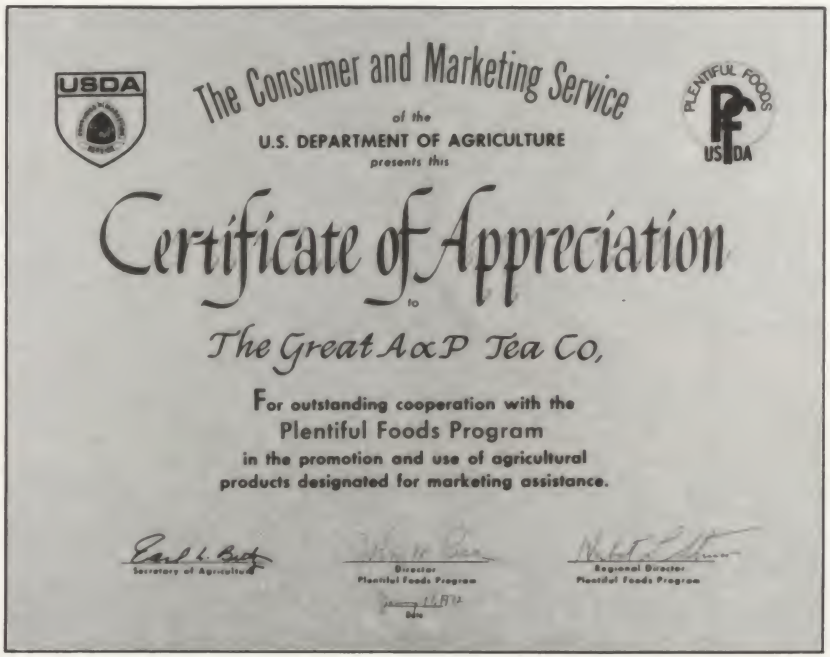
Consumer Affairs Efforts Your company continues to take a positive stance in the following areas of special consumer interest:

1. U.S. Department of Agriculture Plentiful Foods Program—A&P has for many years actively supported the USDA in its efforts to help producers market bumper crops. This support has consisted of lower prices for the consumer, special displays in A&P supermarkets and additional advertising support.

An example of meaningful consumer advertising is the ad entitled "It's Wise To Buy Plentiful Foods!" When we believe an advertised item is an especially good buy because it is plentiful, we use the USDA plentiful foods symbol to highlight the product in our ads. This program benefits both the producer and the consumer.

The U.S. Department of Agriculture recently acknowledged the company's special efforts in support





of the Plentiful Foods Program by awarding A&P a Certificate of Appreciation.

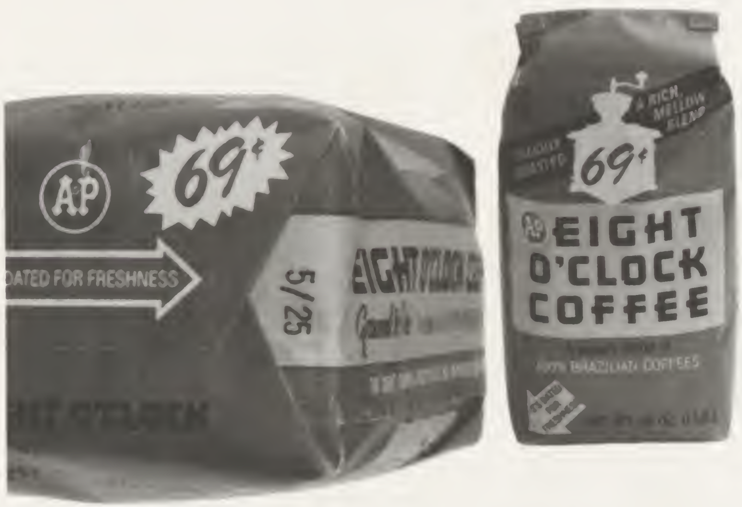
2. Ecology—It is company policy that all A&P supermarkets carry at least one size of the major brands of bottled soft drinks in returnable containers. With respect to our production facilities, a number of improvements have been made and others are under study to improve emission controls for cleaner air and purer water.

3. Open Dating—During the past year, there has been considerable interest and discussion relative to dating perishable food commodities to insure the customer receiving fresh merchandise. A&P has been doing this for many years as our loyal customers can attest. Jane Parker bakery products, fresh eggs, A&P bean coffee, and many A&P Super-Right processed meat items are good examples. Each of these products carries an expiration date after which the product can no longer be offered for sale, or must be sold at a reduced retail.

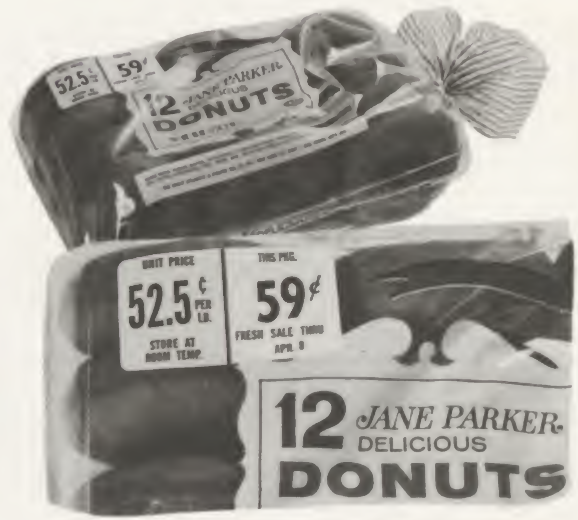
The balance of A&P perishable products, with minor exceptions, are all open coded with a standard company code showing the last date the product may be offered for sale at full retail. These dates allow time for normal home usage after purchase. (Example: 7 - C - 20 is July 20, 1972; the letter A is used for the first year of each decade, e.g. A = 1970.)

For many years we have placed great emphasis on strict enforcement of these codes to insure that the consumer receives quality perishable merchandise.

4. Merchandise Guarantee—A&P unconditionally guarantees every product sold regardless of the manufacturer. This all-encompassing guarantee is included in the statement of A&P Policy displayed in



The freshness date on Eight O'Clock Coffee is one example of your Company's open dating program. All A&P Bean Coffee must be sold before this date or removed from sale.



New Jane Parker Baked Foods labels are currently in use in several hundred A&P and A&P W. E. O. stores. These labels provide the consumer with unit price information, storage instructions, and open coding for freshness control.

every store. It reads as follows: "Cheerfully refund customer's money if for any reason any purchase is not satisfactory."

This long-standing policy is one of the reasons A&P has developed a reputation for integrity.

5. Proper Meat Packaging—There have been a number of local ordinances enacted with the expressed purpose of protecting the consumer with respect to proper packaging of meat products. We believe the A&P "Better Side Down" policy offers maximum consumer protection. Under this policy, we guarantee that "the side of the meat you do not see is as good as or better than the side that is visible."

6. Unit Pricing—The purpose of unit pricing is to show the consumer the cost per common unit of measure of various food products. We are extending our study of unit pricing in a number of trading areas. These tests will continue and the results, particularly consumer response and use of this information, will guide us on future unit pricing decisions.

The management and thousands of loyal A&P employees are dedicated to bringing the consumers the most good food for their money. We firmly believe this basic policy made your company the largest food retailer in the world and that implementation of the A&P WEO program is further evidence of our commitment to that policy in the best interest of our customers, our employees and our stockholders.

W. J. Kane

W. J. KANE
Chairman

Consolidated Balance Sheet THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. AND SUBSIDIARY COMPANIES

(Dollars in thousands)

	February 26, 1972	February 27, 1971
ASSETS		
CURRENT ASSETS:		
Cash	$ 77,803	$ 75,198
Short-term investments — at cost (approximates market)	24,712	16,300
Accounts receivable, principally non-trade	25,562	34,447
Merchandise and supplies — at the lower of average cost or market	442,901	463,239
Prepaid expenses	26,054	21,071
Current assets	597,032	610,255
PROPERTY — NET	364,937	353,652
DEFERRED CHARGES	15,765	14,963
Total	$977,734	$978,870
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$263,319	$253,220
United States and foreign income taxes	2,255	6,325
Dividends payable	4,975	—
Current liabilities	270,549	259,545
DEFERRED INCOME TAXES	27,918	23,707
DEFERRED INVESTMENT TAX CREDIT AND OTHER RESERVES	13,764	15,506
STOCKHOLDERS' EQUITY:		
Preferred stock — no par value; authorized 3,000,000 shares; issued — none		
Common stock — $1 par value; authorized 40,000,000 shares; issued 24,875,224 shares in each year	24,875	24,875
Capital surplus	377,153	377,152
Retained earnings	263,475	278,085
Stockholders' equity	665,503	680,112
Total	$977,734	$978,870

See the accompanying Notes to the Financial Statements.

Statement of Consolidated Income and Retained Earnings

(Dollars in thousands, except per share figures)

	52 Weeks to February 26, 1972	52 Weeks to February 27, 1971
Sales	$5,508,508	$5,664,025
Cost of merchandise sold	4,416,905	4,523,288
Gross profit	1,091,603	1,140,737
Store operating, general and administrative expenses	1,072,107	1,052,142
Profit from operations	19,496	88,595
Interest income — net	1,623	3,034
Income before income taxes	21,119	91,629
United States and foreign income taxes	6,500	41,500
Net income — 1972, $.59 per share; 1971, $2.02 per share (Note A)	14,619	50,129
Retained earnings at beginning of year	278,085	260,294
Cash dividends — 1972, $1.175 per share; 1971, $1.30 per share	29,229	32,338
Retained earnings at end of year	$ 263,475	$ 278,085

NOTE A — Net income per share is based on the weighted average number of shares of common stock outstanding, exclusive of common stock equivalents (stock options) which had no significant dilutive effect or were anti-dilutive.

See the accompanying Notes to the Financial Statements.

Statement of Changes in Consolidated Financial Position

(Dollars in thousands)

	52 Weeks to February 26, 1972	52 Weeks to February 27, 1971
SOURCE OF FUNDS:		
From operations:		
Net income	$ 14,619	$ 50,129
Expenses (income) not requiring (providing) working capital:		
Depreciation and amortization	48,536	50,079
Deferred income taxes (non-current portion)	4,211	4,412
Deferred investment tax credit	(418)	(1,491)
Other	(2,050)	3,109
Working capital provided from operations	64,898	106,238
Sale of property, equipment and fixtures	2,091	1,036
Total	66,989	107,274
DISPOSITION OF FUNDS:		
Expenditures for property, equipment and fixtures	61,987	60,062
Cash dividends	29,229	32,338
Total	91,216	92,400
INCREASE (DECREASE) IN WORKING CAPITAL	(24,227)	14,874
WORKING CAPITAL, BEGINNING OF YEAR	350,710	335,836
WORKING CAPITAL, END OF YEAR	$326,483	$350,710
SUMMARY OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and short-term investments — net	$ 11,017	$ 392
Accounts receivable	(8,885)	2,796
Merchandise and supplies	(20,338)	6,422
Prepaid expenses	4,983	4,440
Total	(13,223)	14,050
Decrease (increase) in current liabilities:		
Accounts payable and accrued expenses	(10,099)	(862)
United States and foreign income taxes	4,070	1,686
Dividends payable	(4,975)	—
Total	(11,004)	824
Increase (decrease) in working capital	$ (24,227)	$ 14,874

See the accompanying Notes to the Financial Statements.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounts of Canadian subsidiaries have been translated into U.S. dollars at appropriate rates of exchange. During the year ended in February 1971 the Canadian Government freed the Canadian dollar exchange rate and this resulted in an unrealized gain on translation of the Canadian accounts of $2,808,000. Of this amount $1,850,000 was credited to consolidated net income, offsetting the amount recognized as a loss in an earlier year, and the remainder has been deferred and is included in Other Reserves in the accompanying consolidated balance sheet. During the year ended in February 1972 the unrealized gain resulting from the translation of the Canadian accounts was not material.

Property: Property is summarized as follows:

	At Year End	
	1972	1971
Property — at cost:		
Land	$ 10,358,000	$ 10,031,000
Buildings	85,678,000	72,527,000
Equipment	393,466,000	397,932,000
Total	489,502,000	480,490,000
Less accumulated depreciation	210,785,000	210,083,000
	278,717,000	270,407,000
Store fixtures, at amortized cost	86,220,000	83,245,000
Property — net	$364,937,000	$353,652,000

Depreciation and amortization ($48,536,000 and $50,079,000 in 1972 and 1971, respectively) is provided generally on the straight-line method over the estimated useful lives of the property.

Capital Stock: The Company issued 929 shares of common stock during May 1970 in connection with the prior year's acquisitions and Capital Surplus was reduced $929.

United States and Foreign Income Taxes: The provisions for taxes are composed of the following amounts:

	Year ended in February	
	1972	1971
Current	$ 2,955,000	$ 38,075,000
Deferred and prepaid — net	3,963,000	4,916,000
Investment credit — deferred	1,855,000	641,000
Investment credit — amortized	(2,273,000)	(2,132,000)
	$ 6,500,000	$ 41,500,000

Deferred income taxes have been provided in recognition of timing differences between income tax and financial statement reporting for certain items, primarily depreciation.

The investment tax credit has been deferred and is being amortized over the estimated useful lives of the assets.

Retirement Plans: Retirement benefits for substantially all full-time employees are provided under the terms of the companies' Retirement Plans or under the terms of Company and union jointly administered plans. Normal costs of the companies' Retirement Plans, and interest on the unfunded prior service cost, are expensed and funded on a current basis. The cost of all plans was $18,091,000 and $9,659,000 for years ended in February 1972 and 1971, respectively.

Long-Term Leases: Most operations of the companies are conducted in leased premises. The following is a summary of leases in force on February 26, 1972 (exclusive of leases relating to premises where operations had not been commenced, which are of the same type):

Leases expire in fiscal years ending	Aggregate rentals (excluding real estate taxes, maintenance, etc.)
1972 - 1976	$376,518,000
1977 - 1981	167,552,000
1982 - 1986	62,508,000
Thereafter	18,195,000

The current annual rental of approximately 4,500 leases in force at year-end is $108,000,000 including real estate taxes, maintenance, etc.

Stock Options: Stock Option Plans approved by the stockholders on June 21, 1960 and June 17, 1969, provided that executive and other key employees may be granted options prior to April 21, 1970 (1960 Plan) and April 1,1979 (1969 Plan) to purchase common stock of the Company at the fair market value of the stock on the date of the grant. A summary of transactions affecting the Stock Option Plans is as follows:

	Year Ended in February			
	1972		1971	
	Common Shares	Total Option Price	Common Shares	Total Option Price
Options outstanding, beginning of year	387,050	$11,408,000	296,806	$ 9,884,000
Options granted			244,700	6,821,000
Options terminated	(39,460)	(1,204,000)	(154,456)	(5,297,000)
Options outstanding, end of year	347,590	$10,204,000	387,050	$11,408,000
Options exercisable, end of year	185,830		137,030	
Shares available for future grants, end of year	270,900		255,300	

At February 26, 1972 and February 27, 1971, there were 618,490 and 642,350 shares, respectively, of the Company's unissued common stock reserved for issuance under the Stock Option Plans.

Accountants' Opinion

HASKINS & SELLS
Certified Public Accountants

To the Board of Directors and Stockholders of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc., and its subsidiary companies as of February 26, 1972 and February 27, 1971 and the related statements of consolidated income and retained earnings and of changes in consolidated financial position for the respective 52-week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at the respective year ends and the results of their operations and the changes in their financial position for the respective 52-week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
April 28, 1972

Haskins & Sells

Six-Year Financial Review

(Dollars in thousands, except per share figures)

For the Year Ended in February	1972	1971	1970(c)	1969	1968	1967
Sales	$ 5,508,508	$ 5,664,025	$ 5,753,692	$ 5,436,325	$ 5,458,824	$ 5,475,259
Net income	14,619	50,129	53,302	45,247	55,897	56,239
Per share (a)	.59	2.02	2.15	1.82	2.25	2.27
Percent of sales	.27%	.89%	.93%	.83%	1.02%	1.03%
Cash dividends	29,229	32,338	32,311	32,265	39,707	37,841
Per share	1.175	1.30	1.30	1.30	1.60	1.525
Additions to property	61,987	60,062	63,259	61,415	63,357	67,817
Depreciation and amortization	48,536	50,079	50,464	50,648	49,856	47,419
At Year-End:						
Working capital	$ 326,483	$ 350,710	$ 335,836	$ 317,331	$ 310,308	$ 304,705
Current ratio	2.21	2.35	2.29	2.32	2.34	2.29
Stockholders' equity	665,503	680,112	662,321	640,492	627,366	611,097
Per share (b)	26.75	27.34	26.63	25.80	25.28	24.63
Shares of common stock outstanding	24,875,224	24,875,224	24,874,295	24,822,021	24,817,308	24,814,741
Approximate number of stockholders	53,400	47,900	52,700	53,400	52,300	54,300
Approximate number of employees	113,600	125,000	130,100	131,500	134,900	139,800
Number of stores	4,264	4,427	4,575	4,713	4,724	4,693

(a) Based on the weighted average number of common shares outstanding each year.

(b) Based on the number of shares outstanding at each year-end.

(c) 53 weeks; all other years contain 52 weeks.

Directors

HAROLD J. BERRY
R. MANNING BROWN, JR.
WILLIAM CORBUS
DONALD KIRK DAVID
HARRY C. GILLESPIE
WILLIAM J. KANE
JAMES S. KROH
ROBERT F. LONGACRE
EDWARD A. LePAGE
JOHN M. SCHIFF
PERCY A. SMITH
HOBART TAYLOR, JR.
EDWARD J. TONER
WILLIAM I. WALSH
NOBLE F. WHITTAKER
J. ALBERT ZEIGLER

Director Emeritus —
OLIVER C. ADAMS

Officers

WILLIAM J. KANE
Chairman and Chief Executive Officer

WILLIAM CORBUS
Vice Chairman

EDWARD A. LePAGE
Vice Chairman

ROBERT F. LONGACRE
President

WILLIAM I. WALSH
Executive Vice President

NOBLE F. WHITTAKER
Senior Vice President

J. ALBERT ZEIGLER
Senior Vice President

HARRY C. GILLESPIE
Vice President-Treasurer

M. DEAN POTTS
Vice President-Secretary

JOHN J. CAIRNS, JR.
Vice President-Merchandising

JAMES S. KROH
Vice President

PERCY A. SMITH
Vice President

ROBERT L. SPENCER
Vice President

Divisional Vice Presidents and General Managers

F. J. Burke	Albany
T. F. Sheridan	Altoona
A. L. Hogewood	Atlanta
E. L. Nicholson	Baltimore
P. Kramer	Birmingham
F. A. Corrigan	Boston
W. J. Vitulli	Bronx
L. E. Leeson	Buffalo
F. C. Kennedy	Canada
E. A. Simpson	Charlotte
R. J. Murray	Chicago
R. V. Layden	Cleveland
L. S. Van Lenten	Columbus
D. G. Richards	Dallas
C. G. McDade	Detroit
J. L. Madden	Indianapolis
N. J. Gallo	Jacksonville
T. G. Otto, Jr.	Kansas City
W. J. F. Dailey	Long Island
R. H. Ruebenstahl	Louisville
R. W. Franzen	Milwaukee
J. P. Twill	Newark
J. Y. Brashear	New Orleans
W. P. Reilly	Paterson
R. C. Jordan	Philadelphia
J. E. Flannery	Pittsburgh
R. H. Saquella	Richmond
R. E. Richards	St. Louis
F. G. Trenery	Scranton
R. T. Sheehan	Seattle
R. F. Fennessey	Springfield
M. A. Young	Toledo
J. L. Long	A&P Coffee Division
E. J. Eisenman	Ann Page Division
H. J. Gilb	National Bakery Division
A. G. Larson	National Dairy Division
C. A. Smith	National Produce Division